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## A Good Neighbor Accompanying You at All Times



Quality Inspection Laboratory obtained **ISO/IEC 17025:2005** certification in 2013.



Total laboratory expenditure for quality inspection on outsourced commodity, raw materials and finished products were **NT\$ 21,746 million in 2013.**

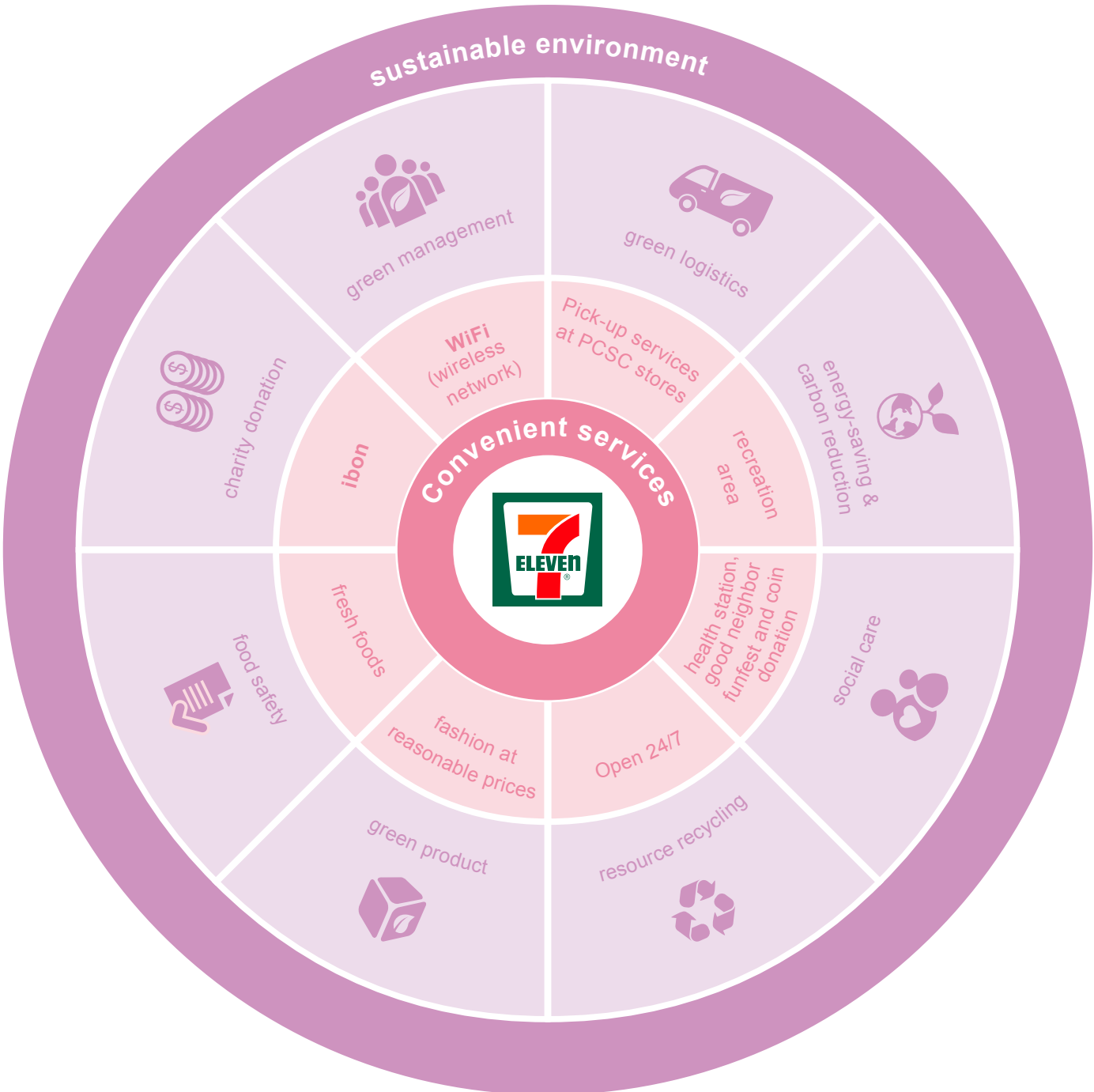
### 2.1 Sustainable Convenient Lifestyle

Ever since the 1970s, PCSC has played the role of a good neighbor in your community like a grocery store and has become a place for shopping, resting and communicating. As times changed along with the political and economic environment, convenience stores have become a distinguished feature of Taiwan. For the past few years, the masses' expectation of services provided by convenience stores has also changed with each passing day, showing higher requirements for convenience. Consequently, to meet consumers' demands and provide them with a more comfortable and friendly shopping space, we continue to expand the store scales based on our existing operational foundation and strengthen the operating policy of safety, convenience and food quality, and develop diversified and fast food offerings. Meanwhile, PCSC leads the trend through its own brand 7-SELECT to promote the ten categories of products covering food, beverages, snacks, frozen-food, frozen-goods, lotion, household paper, rice, textiles, liquors and beauty & health care products, calling for a new lifestyle at lower prices. Besides, its ibon kiosk that integrates information on cash flow and logistics has been used for more than 6.5 times by each person a year on average, and the number of people using ibon grows swiftly at rate of more than 20%, thus becoming an all-round community service center offering great convenience to people. While providing the most convenient shopping space and the most diversified products and services, we are also responsible for creating a sustainable lifestyle. Therefore, we provide 24/7 services, reliable products of high quality and manage a sustainable supply chain to improve consumers' living quality. Aside from this, we invited stores, malls, logistics providers and suppliers to join in our efforts of energy-saving and carbon



reduction, by which we can move steadily towards the objective of a sustainable environment. Furthermore, we also take employee caring and public welfare as our own mission and actively involve ourselves in creating a harmonious neighborhood and even servicing remote villages. With practical programs such as theme-related donations, Good Neighbor Funfest, and Millennium Health Station, we do our best to give back to society and become a benchmark company leading the way to social harmony and sustainable development.

### Sustainable Lifestyle of PCSC Convenience Stores





## 2.2 Multiple Checks, Safe Quality

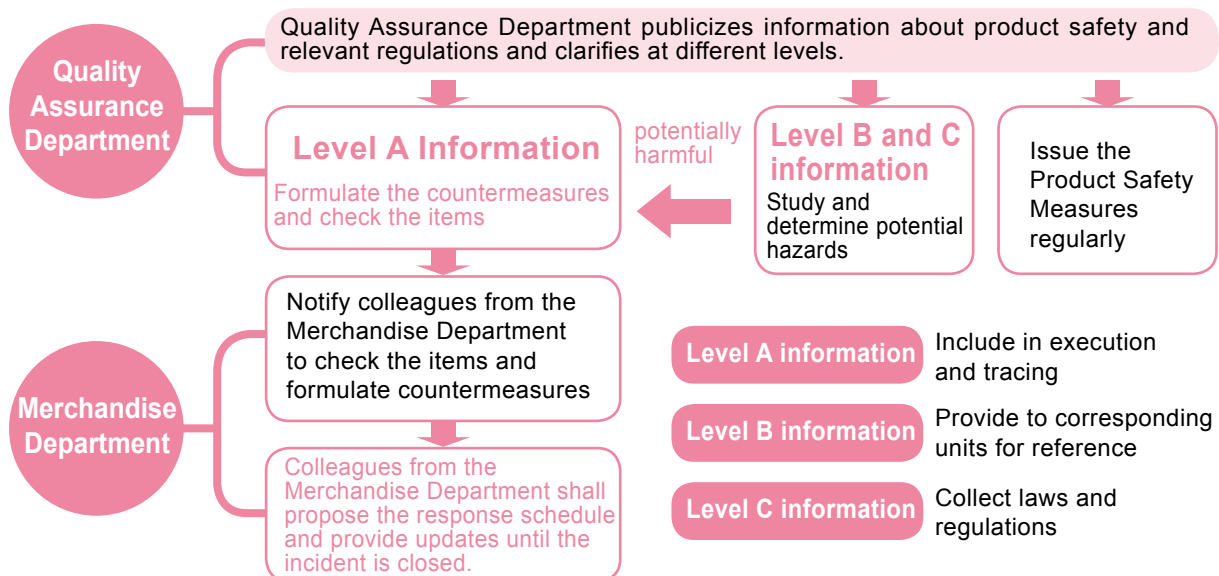
To truly meet the public's demands and continuously observe the consumption trend and social context, PCSC launched diversified products suitable for different lifestyles, for instance, fresh food of high quality. Due to the development trends such as a growing single population, nuclear family, low birth rate and aging population, the take-out business is developing. Statistics show that the take-out population in Taiwan exceeds 7 million people, and 7-ELEVEN sales show they spend one third of their monthly salary on dining out, which is a very large number. Accordingly, 7-ELEVEN combines its strength of multi-channels to invest in the fresh food supply chain. By going deep into the place of production and contracted farming, PCSC cooperates with domestic factories to continuously innovate its products, expecting to enable consumers to experience fresh food through the expanded 7-ELEVEN luncheonette offerings.

Reliable, safe and healthy fresh food is our basic commitment to the consumers. Starting from the stage of raw material procurement, we established a complete source management mechanism; during the manufacturing process, we require our employees to accept the training courses of food safety education, so that we guarantee the process management; what's more, we have a professional logistics team for product distribution and which adopts the distribution management measure of end-to-end temperature control to be able to deliver delicious food to customers immediately.

We actively assist our suppliers so together we can promote the product quality and control the food safety, to further improve the fresh food industry. In the future, we plan to request our manufacturers owning the private brands to accomplish the ISO22000 certification, so that we can assure our customers of the quality.

Facing the food safety incidents emerging one after another both at home and abroad recently, PCSC as the leader in retail distribution channels in Taiwan deeply reflected and analyzed our systems and continuously strengthened the tracing management review. For instance, in 2013, the Work Flow for Product Safety Information Collection, Assessment and Tracking was formulated to enable the Merchandise Department and Quality Assurance Department to collect relevant product safety information and also establish the tracing and review procedures to guarantee product safety together. For the long term, we have invested resources in improving food safety specifications. In September 2014, the biggest edible oil incident occurred in Taiwan, through which we further learned that edible oil safety hazard factors may be present at each stage. Although the incidents were obstacles, it spurred us on to exert greater efforts to improve the source management of raw materials and strengthen our food safety management system.

### Work Flow for Product Safety Information Collection, Assessment and Tracking



### Explanation of the Edible Oil Safety Incident in 2014

The edible oil safety incident in 2014, where some producers passed non-edible oil off as edible oil, severely diminished the international image of Taiwan and the confidence of Taiwanese on local food products. In October 2014, we were notified by the PCSC Corporation that due to equipment failure of the oil supplier, Tongqing Food Co., Ltd., in May, one batch of oil product which turned out to be faulty was purchased from another supplier introduced by Mitsubishi Corp. Although the product was qualified with a certificate provided by Mitsubishi, the incident was instantly reported to PCSC by Tongqing. To avoid any harm to the rights and interests of consumers, PCSC firstly carried out a comprehensive investigation and found out that 17 kinds of beef-flavor instant noodles and broth for spicy Japanese oden were suspected to be contaminated. Further investigation was conducted by the Health Bureau of Tainan City and other government organs. With the principle of prudence and a sense of responsibility, PCSC lost no time in checking all commodities and informing every outlet across Taiwan to remove suspected items off the shelves for precaution. In the future, we will take more efficient measures to secure every link, hoping to obtain continuous support and trust from consumers.

### Firewall for Food Safety- Food Inspection Lab

Product safety is the lifeline of a company, the guarantee for quality and the relief offered for consumption. For us, it is the basic requirement when laying down management guidelines. In order to reinforce the management of food safety, we upgraded the Quality Assurance Team under the Logistics Department as the Quality Assurance Department under the direct order of the Chief Operating Officer in 2011, and later in 2012, set up the Food Inspection Lab. Not only were more sophisticated inspection devices of all sorts introduced, but also professionals from commodity inspection corporations, government agencies related to safety and hygiene as well as pharmaceutical factories. In addition, to improve credibility in inspection, the lab managed to be approved by the Taiwan Accreditation Foundation in terms of ISO/IEC 17025:2005 in 2013, and was thus qualified for the inspection involving total plate count, coliform and coliform group. As expected, the lab gained public trust with its professional validation and the corporation joined the minority in the food retail industry with an international inspection unit. All these efforts demonstrate the determination of PCSC to provide its consumers with quality assurance and build a complete network for food safety.





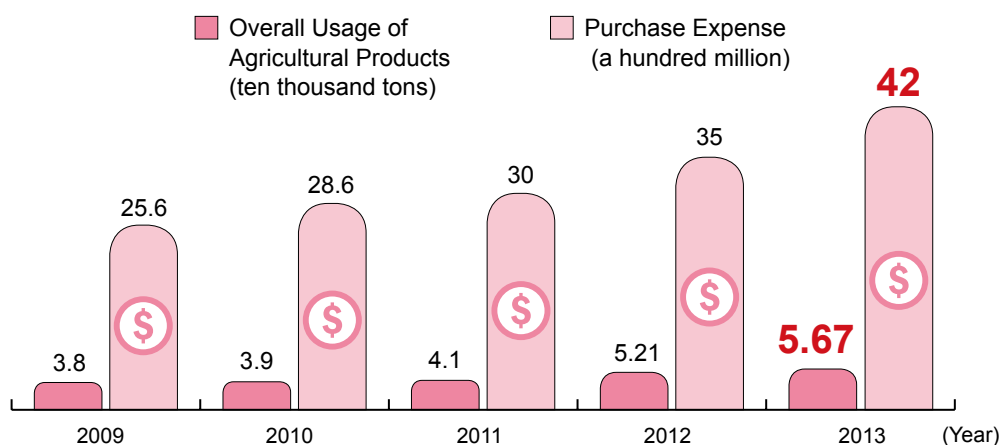
Our quality control consists of risk management, verification and audit as well as quality inspection. Based on the three parts, veterinary drug residues, pesticide residues, food additives, biotoxins and others existing in commodities and their raw materials will be prudently examined and monitored. We strive to maximize professional food knowledge and technology and improve capability in safety inspection, with a purpose to meet consumers' expectations. In the meantime, we are weaving a tighter safety information network to monitor emerging hazard factors. From the source to the finished product on sale, except for inspection items announced by the government, our lab focuses more on those informal items. We take the initiative to study the items not in the government's danger list or to research on those suspected products, develop feasible inspection methods, put forward suggestions for control and set up standards for inspection, with a purpose to bring quality assurance up to a higher level and food safety risk down to the lowest.



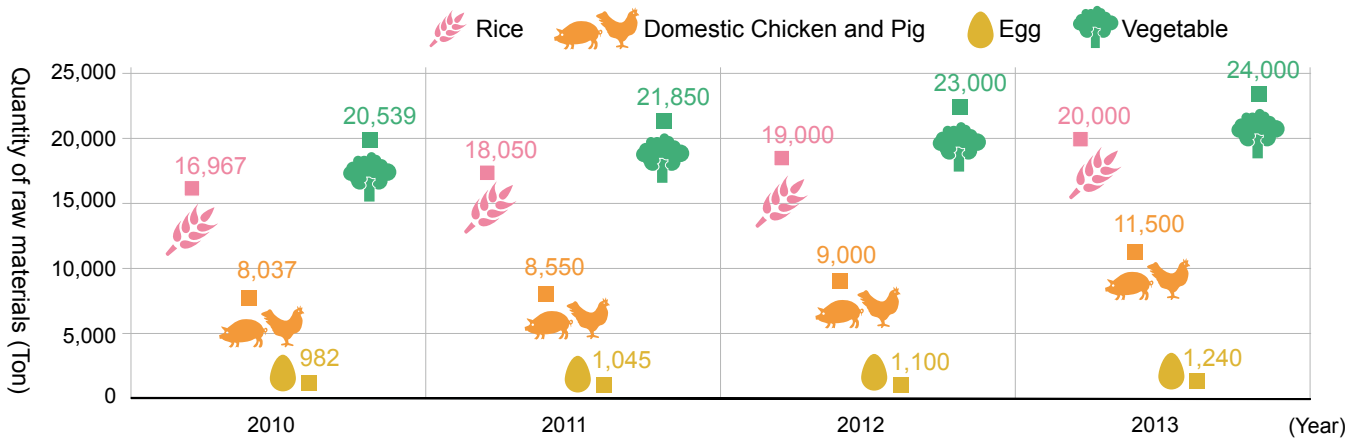
Presently, the lab has been able to carry out inspection on 344 chemical items, including traditional Chinese medicine preparations, western medicines added to healthy food, maleic acid as well as 7 microorganisms like mould, yeast, and *Listeria monocytogenes*. In 2014, we plan to get the approval of the Food and Drug Administration to be qualified for the inspection of veterinary drugs such as clenbuterol. It is expected to acquire qualification for inspecting 2 to 3 items every year in the future. We also hope to keep equipping ourselves with the necessary capacity to inspect so as to consolidate consumers' confidence and the brand's credibility.

## "Sunshine Farm"-Direct Selling

We supervise the production process of fresh food products in light of strict standard. Since 2009, we have been dipping deeper into the supply chain and established procedures covering the places of origin to the distribution outlets to maintain the standard. In light of the concept of "New Agriculture in Taiwan" constituted in 2012 by PCSC, fresh food products under the brand "Sunshine Farm", including vegetables, sandwiches, salads, fruits and beverages, are all made out of select local agricultural materials. Besides, a traceability management system has also been set up for fresh vegetables. Upon close cooperation with nearly 1,500 farmers, over 200 peasant households, 12 fresh food producers and 150 raw material suppliers, as many as 56,700 tons of agricultural materials purchased by fresh food producers as consignees have been processed in 2013, which means 4.2 billion NTD of purchase expense, up by 20 percent from 2012. The largest fresh food industry in Taiwan is coming into being through joint domestic efforts.







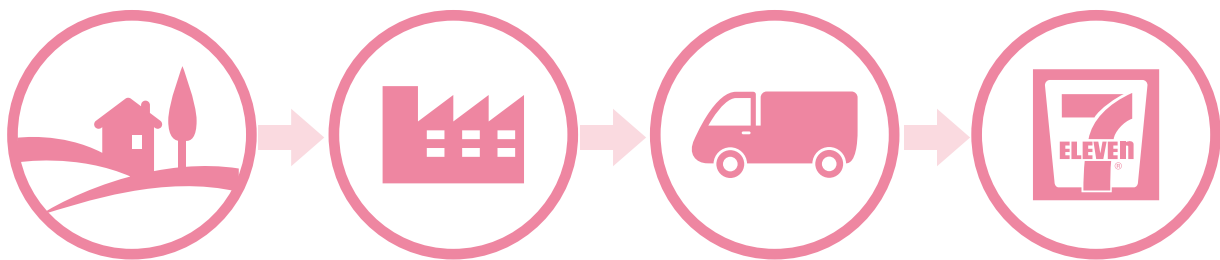
To assure consumers, we would examine every kind of fresh food product through sampling inspection according to strict standards before putting them into the market. In 2013, a sum of 21.746 million NTD was spent on outsourced sampling inspection and the inspection of raw materials and finished products by the lab. We intend to invest more resources and capital and combine modern inspection technology with traditional agriculture to improve inspection proficiency.

### Source Control, a Guarantee of Safe Food Materials

Analyze supply chain, understand the cost and amount and provide consumers with safe and delicious food product

Develop diversified commodities by integrating the supply chain; maintain the advantage in distribution channels;

Make a good use of local excellent agricultural materials; boost industry transformation; undertake collaborations



#### Sunshine Farm Farmer/Farm

##### Administrative Unit

Mainly in the form of cooperatives, with self-organized consultation program among farmers

##### Administrative Methods

Promote contract growing, good agricultural practice and traceability management

##### Inspection

Inspection upon purchase and checking for pesticide residue

#### Specialized Factory

##### Certification

CAS \ ISO 22000

##### Audit and Field Visit

##### Inspection

Selling and delivery inspection hygiene/pesticide

#### Logistics System

##### COLD CHAIN

All-the-way distribution in low temperature

##### Check upon delivery

#### Outlet Management

##### Monthly Regular Inspection

guarantee for health

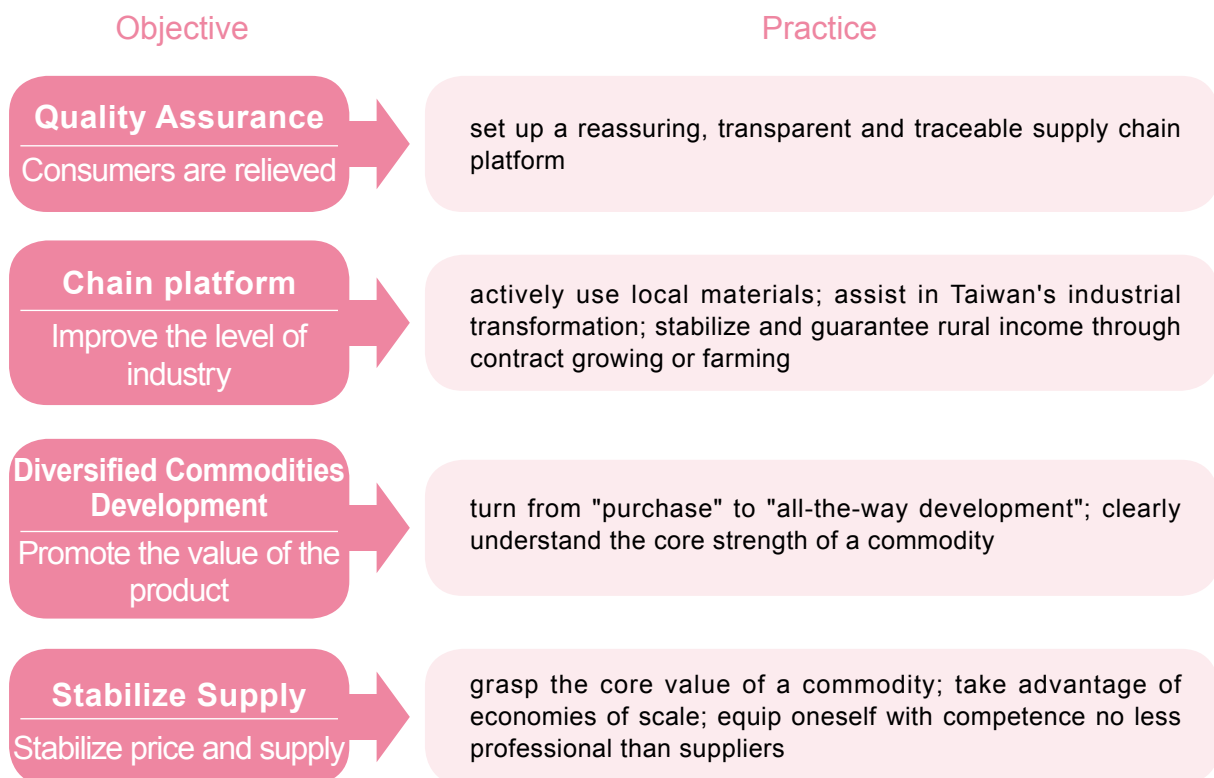


## Making a "Production Record"

Sticking to food safety, we speed up the proposal for expanding the scope to cover vegetables, fruits and beverages. Following vegetables, meat and contract rice growing, fruit was also included in the source control program since 2013 which has been reinforced through such three models as contract growing, field management of origin and all-the-way control. In order to make high-quality and high-value food materials available to the public and, more importantly, to better assure consumers in buying fresh food products, we specially set up a complete "production record" which discloses all information on the rice, egg, vegetables and fruits of PCSC, an effort to relieve the consumers' struggle. More information is available in the following official sites:

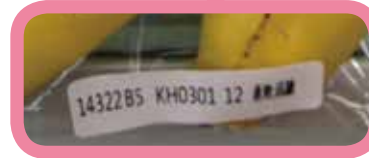
1. Tips of Ensuring Food Safety: <http://www.7-11.com.tw/quality/index.asp>
2. Sunshine Farm: <http://www.7-11.com.tw/light/index.asp>
3. Agricultural Product in Taiwan: <http://www.7-11.com.tw/711/taiwan/index.html>

## The Secret of Ensuring Food Safety



## Ensuring Fruit Safety

Take bananas with a sales volume of 3,000 tons (about 18 million pieces) as an example. In the area where we grow the bananas, we wrap the whole tree for the sake of secure cultivation. We also apply sampling inspection to every batch of banana upon delivery to see if it passes the pesticide testing. After delivering them to the processing plants, and two-time sorting, washing, air drying, dehydration, ripening and other procedures, they will be completely cleaned of smudges and pesticide residues and accelerated to ripen under a low temperature of 13.5~15.5 °C. Moreover, direct distribution from self-production place by delivery vehicles with temperature control makes the bananas in outlets above average both in sweetness and texture. It is worth mentioning that the packing bag for every piece is printed with the production number and goods yard, making it possible to trace the date and place of manufacture and to precisely control the quality of every piece.



### 1. Fruit sorting

After being collected by farmers on a daily basis, the bananas will be delivered to the processing plants for checking. Initial fruit sorting will classify those bananas into Level A and B level encased separately in terms of appearance and weight.



### 5. Cleaning up

Cropped bananas will issue glutinous pectin and must be put into a pool added with rare gases and alums for cleaning and disinfection to smarten the appearance.



### 2. Dehydration

Due to different ripeness levels, selected bananas have to be put into the refrigerating chamber for cooling and dehydration for 1 to 3 days so as to ensure equal ripeness for the same batch.



### 6. Air Drying

After air drying clean bananas, they are put into the refrigerating chamber with ethylene generator under the temperature of 1 to 19 °C for about 5 to 6 days.



### 3. Second Sorting

Dehydrated bananas have to go through another sorting process to get rid of those with too many black or white spots or damaged ones.



### 7. Packing

In a 4 to 6 level of ripeness, those bananas are ready to be packed and distributed. They are packed separately according to weight and attached with bar codes and labels before being encased for delivery.



### 4. Cropping

A cluster of banana is too large and has to be weighed and cropped. Select a large-medium size of cluster with each weighing 150 grams and with a handle of 0.7 kilogram.



### 8. Quality Control

Except for those checks in every link, random check is also carried out by quality control personnel of the plant. Those items with black spots or scratches will also be removed to ensure the quality of every single piece.



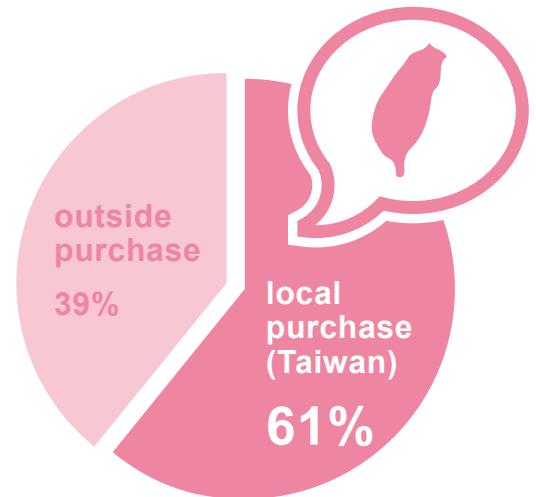


## Fresh Fruit of the Season, Delicacy in the Locality

As for the management of raw materials of fresh food, we closely cooperate with suppliers and jointly set up the "raw material control system". Besides, we adhere to the principle of honesty in marking and advertising, and extend the audit of suppliers to the second stage, taking food safety under control along the whole course.

We consider those fresh commodities developed from local materials of the season to be the freshest and the most sustainable for consumers. The idea not only helps boost the development of local agriculture, but reduces carbon footprint through shorter distance of transport. In 2013, 60 percent of the materials were purchased in the locality. In addition, PCSC analyzed fertilization and dose basing on scientific data and assisted farmers in applying environmentally friendly cultivation methods. By doing so, per unit of output has significantly increased and rural income has been guaranteed by the growing amount of purchase, relieving farmers of their usual concerns.

### Ratio of Local Purchase Expenses of Agricultural Products in 2013



## Checking Packing Materials at All Levels

We take strict control not only on the food materials and manufacturing flow, but also on the quality of packing materials in direct contact with the food products, and have never forsaken innovation. In choosing packing materials, we intend to keep the freshness and texture of the products via the latest technology and also consider cutting down on weight.

With regard to the inspection of packing materials, we have recently added plasticizer inspection to the precedent items involving texture, leaching and thermal resistance. A week before marketing the products, we set up files ready for checking and even take the initiative to release complete reports on the website of Taiwan Delica Foods Development Association for transparency. Taking various rice served with meat and vegetables sold in outlets as an example, it is covered with sealing film instead of a cap, reducing materials by 20 percent.

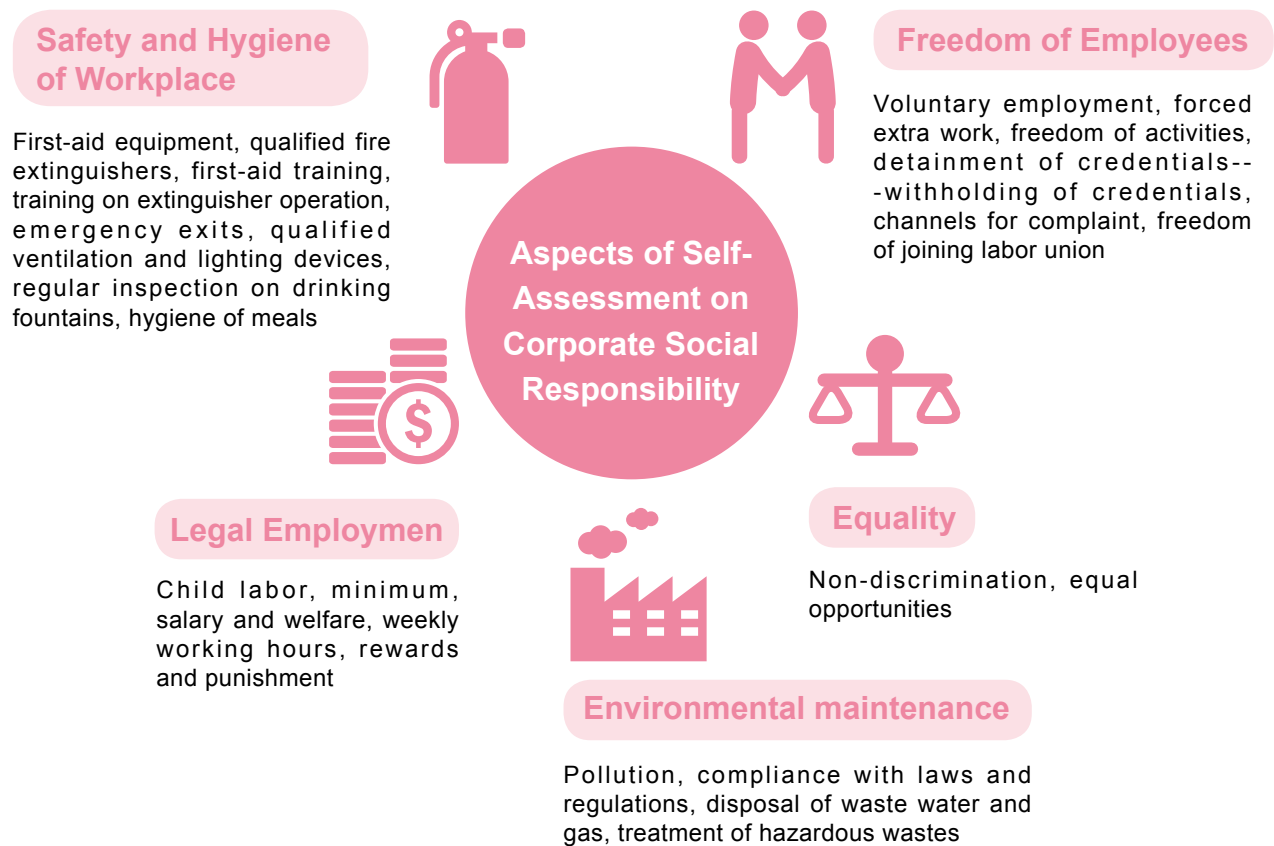
For the relief of consumers and a response to government policy, PCSC runs a comprehensive examination on all private commodities. It also voluntarily delivers samples for inspection, asks upstream manufacturers for inspection report and letter of commitment, and delivers the latest inspection report to outlets across Taiwan for auditing by authorities at any time. Meanwhile, we expand the scope of inspection from private commodities to other products and raw materials, covering fresh food, general merchandise and purchases in advance, with an aim to make sure the contents are in compliance with sanitary regulations and safe to consume.

## 2.3 Sustainable Supply Chain Management

PCSC keeps constant innovation on management, breaks the limit of space and utterly changes the lifestyle of people. Behind those remarkable achievements are years of joint efforts by all suppliers and partners. Close interaction between suppliers and us has brought into being innovative goods and services which meet the demands of consumers to the utmost.

While exploring new markets, we also draw the attention of suppliers to the social obligations of companies, hoping that they will integrate sustainability into operations management, design and development, and then are able to improve business performance and competitiveness for the sake of profits and a win-win situation.

For the management concerning suppliers, except for quality of purchase, delivery time and cost, we attach more importance to whether they are concerned about the safety of their employees, comply with the policies for human rights and environmental protection, and whether their business models follow local laws and regulations. Since 2008, suppliers of engineering, information equipment and purchasing have been required to fill in the "Form of Self-Assessment on Corporate Social Responsibility" before they can be introduced. In the form, assessment involves such five aspects as safety and hygiene of workplace, freedom of employees, legal employment, equality and environmental protection. If necessary, a purchasing specialist will be assigned to conduct an audit of the suppliers' production sites.





In the performance of "corporate social obligations" concerning fresh food production and procurement of commodities on our own, we have added to all annual contracts such as basic CSR terms as compliance with labor laws and environmental protection. In 2013, no supplier was free from the CSR terms, and none of the 50 manufacturers failed the standard when suffered from sampling inspection.



### CSR Terms of a Standard Contract of PCSC

1. Suppliers shall accept the audit by PCSC on related matters of labor laws.
2. Suppliers shall promise to be devoted to improving utilization of resources and try to use local materials and renewable materials with less environmental load, ensuring the sustainability of resources on earth.
3. Suppliers, taking cost, profit, technology and finance into account, shall agree to try their best to reduce harm to human health and environment, to put into practice the best possible pollution control measures and technology and to cut down on greenhouse gas emission.

Every year, PCSC would throw various meetings with suppliers, which serve as a chance to explain the company's status quo and future expectations, its principle business ideas and new regulations concerning suppliers, and also as an opportunity to hear the feedback of suppliers to promote better interaction and collaborative patterns. The conference on fresh food supply chain held in 2013 was attended by 44 manufacturers and 70 suppliers. At the conference, we expressed our expectations for upstream manufacturers to expand safety issue from food to four other aspects including public, environment, capital and finance, to run comprehensive checks on operation and administration, to expand the scope of quality control from product to factory equipment, waste disposal, human resources development and business performance, and to continuously absorb new knowledge and introduce innovative technology and equipment to better react to the ever-changing environment.

## Growth along with Competition

In order to encourage excellent manufacturers and to unite all forces, 7-ELEVEN would hold competitions for "Gold Fresh Food Factory Award" and "Excellent Supplier", giving impetus to partners with good performance. Of the two competitions, "Gold Fresh Food Factory Award" consists of two awards respectively concerning "research and development" and "administration". To win the former award, it is required that more than 5 items of the fresh food products developed be sold in every outlet for 4 consecutive weeks. For the latter, scores from the monthly audit will be added up and 3 highest point winners will stand out from the factories of a temperature of 4 °C , and another 3 from the factories of 18 °C .

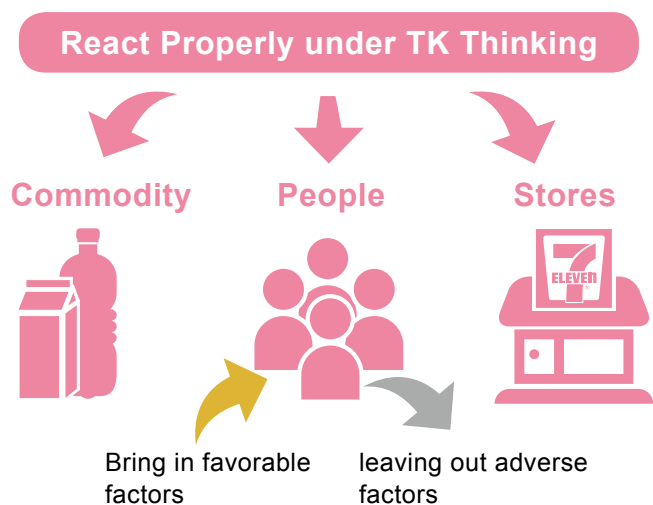
—For the latter, scores from the monthly audit will be added up and top 3 from the factories with a storage temperature of 4 °C will be winners, so are the top 3 from the factories with a storage temperature of 18 °C . Every award is far from an easy target, for any accidental complaint or unusual matter, or even a minor slip in manufacturing flow can cause loss of points and consequently, the award. By doing so, we hope to promote friendly competition and encouragement between suppliers so as to jointly upgrade product innovation and consolidate food safety.



## 2.4 Thoughtful Services Always Open

"Good morning, welcome to the store" is a usual but sincere greeting to customers from our colleagues at the frontline. By the end of 2013, 7-ELEVEN has owned 4,922 outlets across Taiwan, providing customers not only with diversified commodities, but also with the most thoughtful services, an aim we keep pursuing. By the end of 2009, beginning with altering the "store space", we have brought in the business model of "big store", offering customers a brand new experience with a better place for strolling and shopping with more diverse services. Firstly, we placed more seats to create a comfortable space for resting, dining, chatting and drinking coffee, and also a safe place for children to wait for their parents after school. Secondly, we set up more restrooms for the convenience of customers and passers-by. Open space produces indefinite possibilities, enabling our outlets to interact more often with customers. Going with the "good neighbor funfest" within the community, we often come up with different themes and invite residents nearby to participate, for example, together we used coffee grounds to make an environmentally-friendly soap, experiencing environmental protection in person; or we helped children make flowers for Mother's Day. While facilitating outlets, we also turn them into an emotional link within communities. Big stores of 7-ELEVEN with an area of more than 30 square meters have accounted for 58 percent of the total, of which 90 percent offer seating area. With the diversification of services, it is a basic requirement to maintain a uniform quality of service. Since 2012, we have been on another journey from our "heart" to guarantee and improve the quality of service provided by frontline workers at the outlets basing on three key words of Q.S.C., that is, quality, service and cleanliness. Starting from these three basic aspects, we attach most importance to remaining alert and constantly improving service, which is also the most basic social obligation for PCSC as a member of the retail business.

In addition, we keep updating the SOP manual of excellent service based on our accumulated experience through the years, and make records of quality services to intensify the concept of Q.S.C.. With pictures and words, we expect to help every partner at the outlets to more easily understand the meaning of the service and further internalize quality service as a basic principle at work. Apart from that, in order to increase interaction between our partners and customers, we actively promote labor-saving operations by continuously simplifying tasks of outlets, hoping that our partners can put into every service practice the five steps of paying respect, listening attentively, responding in a timely manner, handling things properly and showing gratitude.





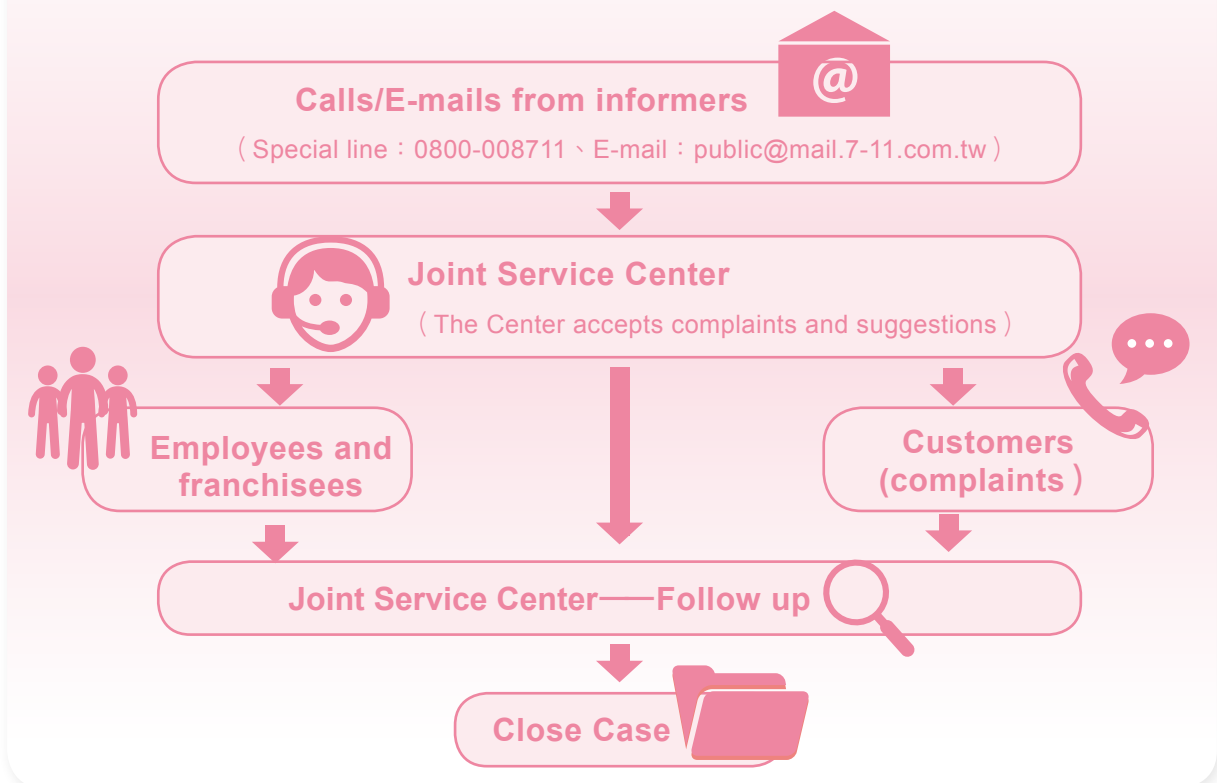
Additionally, to ensure honest and timely services, we also introduce external assessment; specifically, people disguising as customers will simulate various situations and give a score accordingly to practically examine the adaptability of outlet workers and carry out the operation service quality control. In 2013, 5,639 stores altogether were evaluated and some of them twice so as to stimulate all outlet workers to offer excellent services as stated in the Q.S.C. principle, and to build an excellent and sustainable single store.

## Consumption Satisfaction Up

It was planned in 2013 to conduct investigations on consumption satisfaction in outlets and marketplaces, with the purpose of actually determining the customers' level of satisfaction, to quantify and specify services for their improvement and to offer reference for the operation of a single store within the business district. Moreover, by means of self-help ordering on the display at the cashier area, devices are made easier to use and customers are enabled to express in real time their degree of content at any time. It is also helpful in keeping outlet workers alert and finally achieving the goal of constant improvement of services. Currently, the investigation has been put into operation since 2014 and the result will be released on the CSR report.



To timely meet customers' demands, a Joint Service Center is specially set up to ensure proper handling of reactions by special persons through the one-on-one service window.



As for marketing, package design goes through specific checking procedures and is supervised by units of both quality control and legal affairs to make sure of the proper use of publicity materials and their compliance with laws and regulations. Moreover, we also try to avoid using exaggerated wordings for advertising, such as "all natural", "100%, absolutely safe", "the first; the only", "first-class", "no additive", "exclusive" and the like, so as to eliminate misconceptions.



## Advanced Privacy Protection

In Oct. 2012, the Privacy Protection Law was issued. To show our commitment towards consumers' privacy protection, PCSC established the trans-department Privacy Protection Task Team a year ahead of schedule to work out the management system and uphold the spirit of accountability and independence to foster the privacy protection seed in each department, by which we can popularize the privacy protection concept and inculcate it in our colleagues' hearts. Next, the model of stratified authorization is adopted to form the four operational teams, i.e., Data Security System, Education and Training, the Rights of Party Involved and System Internal Evaluation, which are respectively responsible for personal data check, risk analysis, system internal evaluation, notification revision, education and training and data erasure and disposal, and also take charge for improving the company's handling measures on personal information management during its advertisement of data privacy protection.

To meet the requirements of the domestic Privacy Protection Law, PCSC officially introduced the Taiwan Privacy Protection and Management System in 2012. It is the first company in Taiwan that gets the DPmark (Data Privacy Protection mark) issued by Department of Commerce, Ministry of Economic Affairs with a period of validity for two years. In 2013, PCSC continuously amended the notification on personal privacy of each department based on the current implementation performance, and authorized the audit office to conduct internal evaluation. Measures are proposed directed at defective aspects to assist each department in improving and executing regulations, so as to pass the mid-term validation of the DPmark smoothly and assure the effective operation and continuous improvement of management systems. To enhance the capacity and efficiency of the data management system, we extended the auditing scope to the whole headquarters and five direct outlets, so that we can drive both the frontline employees and logistical personnel to engage in the data information management and also specifically display our achievements in data protection and management.

We also plan to extend our promotion experience in data privacy management to provide necessary advice and assistance for related companies that need to apply for a DP mark, so that we can not only guarantee our commitment towards consumers' data privacy but also share our experience with businesses shifting to investment to fully play its function.

What's more, considering the importance of personal data privacy management that concerns each employee in different positions, the Human Resources Department of PCSC started and designed the online compulsory course of data privacy management for frontline employees and logistical personnel, making data privacy management the most important section of staff education and training, with an implementation rate of 100%.

However, since frontline employees may handle a large quantity of personal information, we issued the Management Manual for Data Privacy at Frontline Stores to emphasize the regulations that consumers' winning invoices shall be treated the same as cash, order sheets shall be locked in drawers, so that our employees can instill the concept of data privacy management in their minds during their performance of daily tasks.

